

Message Text

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ACTION TRSE-00

INFO OCT-01 EA-06 ISO-00 NEA-10 IO-10 L-03 H-02 PA-01

PRS-01 SP-02 AID-05 EB-07 NSC-05 CIEP-01 SS-15 STR-04

OMB-01 CEA-01 CIAE-00 COME-00 FRB-03 INR-07 NSAE-00

USIA-06 XMB-02 OPIC-03 LAB-04 SIL-01 /101 W

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P 010816Z AUG 75

FM AMEMBASSY MANILA

TO SECSTATE WASHDC PRIORITY 6061

INFO AMEMBASSY BANGKOK PRIORITY

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USADB

FOR NAC AGENCIES

E.O. 11652: ADS, DECLAS 11/1/75

TAGS: EAID, EFIN, TH

SUBJECT: PROPOSED ADB LOAN FOR INDUSTRIAL FINANCE CORPORATION
OF THAILAND PROJECT

SUMMARY: ADB MANAGEMENT PROPOSES \$20.0 MILLION EQUIVALENT
LOAN FROM ORDINARY CAPITAL RESOURCES TO INDUSTRIAL
FINANCE CORPORATION OF THAILAND (IFCT) TO AUGMENT ITS
FOREX RESOURCES TO HELP MEET MEDIUM AND LONG-TERM CREDIT
REQUIREMENTS OF PRIVATE INDUSTRIAL ENTERPRISES IN
THAILAND. USADB RECOMMENDS FAVORABLE NAC ACTION.

1. ADB DO. R70-75 WITH ATTACHMENTS DESCRIBING
PROPOSED LOAN POUCHED ADDRESSEES JULY 28. BOARD
CONSIDERATION SCHEDULED AUGUST 12.

2. ADB MANAGEMENT PROPOSING \$20.0 MILLION LOAN FROM
ORDINARY CAPITAL RESOURCES TO IFCT. PROCEEDS WILL
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AUGMENT IFCT'S FOREX RESOURCES TO ENABLE IT TO MEET

PART OF FOREIGN CURRENCY NEEDS TO END OF 1977.
PROPOSED TERMS ARE 15 YEAR AMORTIZATION INCLUDING
GRACE PERIOD NOT EXCEEDING 3 YEARS FROM DATE WHEN A
SUB-LOAN IS APPROVED BY IFCT, 8-3/4 PERCENT INTEREST
ON AMOUNT OF LOAN WITHDRAWN AND OUTSTANDING FROM
TIME TO TIME. IFCT TO BE BORROWER AND EXECUTING
AGENCY, AND KINGDOM OF THAILAND TO BE GUARANTOR.
IFCT'S INTEREST RATE ON SUB-LOANS WOULD BE
10.5 PERCENT. BANK HAS RECEIVED ASSURANCES FROM IFCT
THAT RELENDING RATE WILL BE REVIEWED FROM TIME TO
TIME, IN CONSULTATION WITH BANK, TO DETERMINE ADEQUACY
IN CONTEXT OF GENERAL INTEREST PATTERN IN THAILAND
AND NEED FOR SUITABLE INTEREST SPREAD.

3. IFC WAS ESTABLISHED IN 1959 AND IS PRIMARY
SOURCE OF FOREIGN AND LOCAL CURRENCY FUNDS FOR MEDIUM
AND LONG-TERM FINANCING OF INDUSTRIAL PROJECTS IN
THAILAND. ITS INITIAL CAPITAL HAS BEEN INCREASED
FOUR TIMES, MOST RECENTLY IN SEPTEMBER 1973, AND NOW
AMOUNTS TO BAHT 150 MILLION (\$7.5 MILLION EQUIVALENT),
OF WHICH FOREIGN SHAREHOLDING AMOUNTED TO 47.5 PERCENT
AT END 1974. (LOCAL AND FOREIGN BANKS, INCLUDING
FIVE U.S. BANKS, TOGETHER HOLD 73.1 PERCENT OF SHARE
CAPITAL. GOVT-OWNED DRUNG THAI BANK HOLDS 16.4
PERCENT.) GOVT FINANCIAL ASSISTANCE TO IFCT HAS BEEN
IN FORM OF LONG-TERM LOCAL CURRENCY LOANS AND
GUARANTEES. IN ADDITION, GOVT ENTERED INTO AGREEMENT
IN APRIL 1974 TO PROVIDE COVERAGE OF IFCT'S FOREIGN
EXCHANGE RISK.

4. PRESENT CHARIMAN OF BOARD OF DIRECTORS WAS
PREVIOUSLY GENERAL MANAGER; WAS FINANCE MINISTER UP
TO FEBRUARY 1975; AND HAS ALSO BEEN ASSOCIATED WITH
BANK OF THAILAND. ACCORDING TO BANK QUOTE HIS CONTACTS
AND EXPERIENCE ARE SOURCE OF GREAT STRENGTH FOR IFCT
UNQUOTE. GENERAL MANAGER, FORMERLY WITH BANK OF
THAILAND, ENJOYS GOOD REPUTATION IN BUSINESS AND
FIANCIAL CIRCLES.

5. MAJOR CHANGES WERE MADE IN ORGANIZATIONAL
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STRUCTURE OF IFCT IN 1971 WITH PRIOR DISCUSSIONS
WITH BANK'S REVIEW MISSION, MWAING IT MORE APPROPRIATE
TO TIS OPERATIONS AND ACTIVITIES. IFCT HAS TWO
FOREIGN ADVISORS IN ECONOMICS AND ENGINEERING,
PROVIDED SINCE FEBRUARY 1972 UNDER GERMAN TECHNICAL
AID PROGRAM. OVERALL APPRAISAL TECHNIQUES AND
PROCEDURES CONSIDERED GENERALLY SATISFACTORY ALTHOUGH
MARKET AND ECONOMIC EVALUATION OF SUB-PROJECTS NEEDS

FURTHER IMPROVEMENT. IFCT PLANS TO ORGANIZE INTERNAL TRAINING PROGRAM IN MARKET EVALUATION, WHILE ONE IN ECONOMIC EVALUATION WAS RECENTLY IN PROGRESS. FURTHER IMPROVEMENT ALSO NEEDED IN TECHNICAL AND MANAGEMENT ASPECTS OF SUB-PROJECT IMPLEMENTATION AND OPERATION FOR WHICH ON-THE-JOB TRAINING IS PLANNED.

6. AT END OF 1974, IFCT'S OVERDUE LOANS WERE 2.7 PERCENT OF REPAYMENTS, WHICH BANK CONSIDERS REASONABLE. BANK ALSO CONSIDERS IFCT'S LOAN PORTFOLIO TO BE SOUND.

7. IFCT HAS HAD TWO PREVIOUS LOANS FROM ADB: 5.0 MILLION EQUIVALENT IN JANUARY 1968 AND \$10.0 MILLION IN DECEMBER 1969. DISBURSEMENTS ON BOTH LOANS HAVE BEEN COMPLETED. SINCE 1963, THERE HAVE BEEN EIGHT ADDITIONAL FOREIGN CREDITS TO IFCT FROM KFW, IBRD, JAPAN EXIMBANK, DANISH GOVERNMENT AND JAPANESE GOVT. FOREIGN CURRENCY REQUIREMENTS ON COMMITMENT BASIS ARE ESTIMATED AT \$95.8 MILLION EQUIVALENT DURING 1975-1978. WHILE TOTAL AVAILABLE FOREIGN CURRENCY RESOURCES EXCEED PROJECTED COMMITMENTS, ONLY TWO OF THE LOANS WITH UNCOMMITTED FUNDS (IBRD AND KFW) ALLOW INTERNATIONAL PROCUREMENT. THUS, IFCT CONSIDERS IT ESSENTIAL TO OBTAIN BANK LOAN IN 1975 TO HELP FILL FOREIGN RESOURCE COMMITMENT GAP UP TO END 1977. (IN 1976, IFCT PROPOSES TO SEEK ADDITIONAL FOREIGN CURRENCY FUNDS FROM EXIMBANK OF JAPAN AND KFW, ACCORDING TO BANK MISSION.)

8. FREE LIMIT FOR SUB-LOANS UNDER PROPOSED LOAN WOULD BE \$400,000, UP FROM \$200,00 UNDER BANK'S LIMITED OFFICIAL USE

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SECOND LOAN. INCREASE JUSTIFIED IN VIEW INCREASING SIZE OF IFCT'S INDIVIDUAL SUB-LOANS, GENERAL INCREASE IN RECENT MACHINERY AND EQUIPMENT COSTS, AND OVERALL IMPROVEMENT IN IFCT'S ORGANIZATION AND OPERATIONAL PROCEDURES. IFCT WILL SATISFY BANK THAT PROCUREMENT PROCEDURES ADOPTED BY INDIVIDUAL SUB-BORROWERS ARE APPROPRIATE, AND THAT GOODS AND SERVICES TO BE FINANCED WILL BE PURCHASED AT REASONABLE PRICE, TAKING ACCOUNT OF TIME OF DELIVERY, EFFICIENCY AND RELIABILITY OF GOODS AND AVAILABILITY OF MAINTENANCE FACILITIES AND SPARE PARTS AND, IN CASE OF SERVICES, OF THEIR QUALITY AND COMPETENCE OF PARTIES RENDERING THEM.

9. BANK CONSIDERS IFCT TO BE WELL ORGANIZED

INSTITUTION WITH COMPETENT AND CAPABLE GENERAL
MANAGER AND ASSISTANT GENERAL MANAGER AND GENERALLY
EFFICIENT STAFF. OPERATING POLICIES AND PROCEDURES
ARE CONSIDERED TO BE SATISFACTORY AND LOAN PORTOFLIO
SOUND. USADB SUPPORTS PROPOSAL AND RECOMMENDS
FAVORABLE NAC ACTION.

10. REQUEST BANGKOK'S COMMENTS FOR NAC AGENCIES, INFO
USADB MANILA, PURSUANT TO STATE 119795 DATED 3 JULY 1972.
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